Food prices rise sharply - and there's more to come

Stacy Finz, Chronicle Staff Writer
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For the first time since 2008, inflation is hitting consumers in the stomach.

Grocery prices grew by more than 1 1/2 times the overall rate of inflation this year, outpaced only by costs of transportation and medical care, according to numbers released Wednesday by the U.S. Bureau of Labor Statistics.

Economists predict that this is only the beginning. Fueled by the higher costs of wheat, sugar, corn, soybeans and energy, shoppers could see as much as a 4 percent increase at the supermarket checkout next year.

"I noticed just this month that my grocery bill for the same old stuff - cereal, eggs, milk, orange juice, peanut butter, bread - spiked $25," said Sue Perry, deputy editor of ShopSmart magazine, a nonprofit publication from Consumer Reports. "It was a bit of sticker shock."

But it makes sense. Since November 2009, meat, poultry, fish and eggs have surged 5.8 percent in price. Dairy and related products have gone up 3.8 percent; fats and oils, 3 percent; and sugar and sweets, 1.2 percent.

While overall inflation nationwide was 1.1 percent, grocery prices went up 1.7 percent nationally and 1.3 percent in the Bay Area, said Todd Johnson, an economist for the Bureau of Labor Statistics office in San Francisco. "The largest effects on grocery prices here over the last month were tomatoes, followed by eggs, fish and seafood."

Produce steady

Across the country, the price of produce has remained fairly steady. But the U.S. Department of Agriculture predicts that next year the price of fruits and vegetables, like many other food commodities, could go up. The government agency is forecasting a 2 to 3 percent food inflation rate in 2011 - a pace that is not unusual in a rebounding economy.

"We usually err on the conservative side," said Ephraim Leibtag, a senior economist with the USDA, adding that "2011 holds a bit of uncertainty, so I wouldn't be surprised if it goes higher. If it goes to 6 percent, then we should be worried."

Michael Swanson, an agricultural economist at Wells Fargo, said that as long as corn, soybean and energy prices continue to climb, food inflation could reach 4 percent in 2011.

"The USDA always plays it safe," he said, adding that the nation is likely to see the biggest increases since 2008, when the food inflation rate was a record 5.5 percent.

The global demand for corn - used for food and ethanol - has swelled so much that feed costs for farmers and ranchers are being passed on to the consumer, Swanson said.

Gas, diesel play a role

Gas and diesel prices also are playing a role. Wheat costs went through the roof this year when 20 percent of Russia's crop was destroyed by drought and wildfires, causing the country, the third-largest producer in the world, to ban exports of the grain. The price of sugar, also used for ethanol in parts of the world, is priced at a two-decade high.

Kraft Foods Inc., one of the world's largest food producers, has already announced plans to increase its prices because of mounting ingredient costs and flagging sales. General Mills, maker of everything from flour and baking mixes to cereal and Yoplait yogurt, has said it, too, will raise some of its product prices in January. Experts said consumers can expect the same from Kellogg's and Nestle.

The silver lining, Swanson said, is that retailers such as major supermarket chains and big-box stores are likely to push back at wholesalers to keep prices from jumping too much.

"Food is a high-frequency driver," he said. "So if stores like Walmart and Kmart want to get shoppers in the door, it's to their benefit to keep prices low."

E-mail Stacy Finz at sfinz@sfchronicle.com.